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C O N F I D E N T I A L SECTION 01 OF 03 BAGHDAD 000987

SIPDIS

DOE FOR GEORGE PERSON

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TAGS: [EPET](#) [ENRG](#) [EINV](#) [PREL](#) [IR](#) [IZ](#)

SUBJECT: OIL MINISTER COMPLACENT ABOUT UPSTREAM PRODUCTION PLANS

REF: A. BAGHDAD 856

[1B.](#) BAGHDAD 388

[1C.](#) 08 BAGHDAD 4014

Classified By: EMIN Ambassador Marc Wall, reasons 1.4(b,d)

[¶1.](#) (C) SUMMARY: During an April 7 meeting with EMIN, Oil Minister Husayn al-Shahristani appeared unruffled by the February 27-March 1 Oil Policy Symposium and instead highlighted some of the recommendations likely to benefit the Oil Ministry. He detailed the Ministry's current efforts to expand production. In addition to the bid rounds, they include Engineering, Procurement, and Construction contracts for select fields and the MoO's tender for contracts to conduct well workovers and some additional drilling. The joint venture with Mesopotamian Petroleum Company had already ordered two drilling rigs, which were being delivered to Iraq, and the Chinese had brought in some equipment for development of the Ahdab field. All these measures were intended to allow the Ministry of Oil to reach a target of producing six million barrels of crude oil per day in 5-6 years, rather than the originally targeted 10-year timeframe.

Shahristani and Deputy Minister al-Shamma were both concerned about an Iranian letter claiming that an Iraqi oil terminal was located in Iranian territorial waters.

Shahristani predicted that there would be no progress on hydrocarbons legislation before the national elections and complained about Kurdistan Regional Government (KRG) failure to follow through on an agreement on oil export and production that was tentatively concluded in October (ref C).

END SUMMARY

[¶2.](#) (U) EMIN Wall met Oil Minister Husayn al-Shahristani April 7 to get an update on Ministry of Oil activities. Deputy Oil Minister Ahmad al-Shamma joined Shahristani on the Iraqi side. MNF-I CJ9 Essential Services Division Chief Brigadier McNinch, DOE Energy Attache, and Oil and Infrastructure Team Chief accompanied EMIN.

Ministry's Production Plans

[¶3.](#) (SBU) Shahristani said the February 27 - March 1 Oil Policy Symposium held in Baghdad was a good gathering of Iraqi and international experts, which provided him the opportunity to discuss MoO plans to increase production and exports. MoO is targeting expansion of oil production to reach 6 million barrels per day (bbl/d) in 5-6 years, shortened from an initial timeframe of ten years. MoO intends to add 100,000 bbl/d of production to the current production rate of 2.4 million bbl/d by the end of 2009. The first bid round, which targets a 1.5 million bbl/d increase in production, would be also completed by the end of 2009 (note: but not lead to any increase until the companies winning the tenders have constructed the facilities and implemented other measures). Execution of the second bid

round had been delayed by a year.

EPC Contracts

¶4. (C) At the same time, Shahristani continued, the MoO had selected some fields, chosen after careful study, to be developed with Engineering, Procurement, and Construction (EPC) contracts. The Nasiriyah field was one such field, with an invitation to three companies to submit EPC bids. The MoO was analyzing their tenders, which contained commercial terms and technical parameters. The Nasiriyah EPC contract could be quickly executed to add 100,000 bbl/d to the current production of 50,000 bbl/d. Thus, Nasiriyah could be expected to be producing 150,000 bbl/d by 18 months from signing of the contract, which was an increase in addition to the targets for the first and second bid rounds. Qaddition to the targets for the first and second bid rounds. If the Nasiriyah tender was successful and international oil companies (IOCs) appeared willing to accept EPC terms, the MoO would consider other fields for development over the next three years.

¶5. (C) Shahristani later added that Nasiriyah's development would require significant logistic activity to bring in 6,000 workers within a six-month timeframe to a security camp. He expected delays caused by the Ministry of Interior's processing of visas and transportation required to the site. He also said that additional fields that might be offered for EPC contracts would be smaller, but that they would always be offered to a minimum of three companies. Shahristani boasted that the system for awarding the EPC contracts was as transparent as any contract award in Iraq. A committee of

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ten people would open the sealed bids together and announce the specific offer in each bid. Parliament would also have the opportunity to review the committee's decision. If technical parameters were similar, the winner would be selected on the commercial terms; a decision would be more difficult if the technical parameters were different.

Accelerated Production Program

¶6. (SBU) Shahristani said the MoO's own accelerated production program was focused more on well workovers, which are required for 100 wells, rather than new drilling. This step could add another 200,000 bbl/d, but required construction of pipelines and other fields' infrastructure to connect wells. Since the bid round process would take time, Shahristani noted, the MoO was also working with oil service and drilling companies to add an additional 400,000-500,000 bbl/d (note: as heard) within 12 months. As one measure, the MoO had agreed to form a joint venture with the Mesopotamian Petroleum Company, with the first rigs to arrive by the end of May. Two were already being shipped to Iraq. He was willing to provide as much work as could be handled to any interested company willing to form a joint venture or register in Iraq.

Internal Reforms

¶7. (C) Shahristani noted the Oil Policy Symposium had also benefited the MoO by recommending that it receive exemptions from budgetary requirements, normally a lengthy decision-making process that requires a minimum of six months to open a letter of credit (L/C). The Prime Minister had indicated his support. Shahristani said he had sent the Prime Minister a letter requesting approval of the recommendation, but he had not yet received a reply. In the meantime, Shahristani said he had implemented some changes in the MoO's management of the upstream sector. He had promoted the MoO's Inspector General, who had spent part of his career in Basrah, to be the new Deputy Minister for upstream.

Oil Sector Upstream Investment

¶ 18. (C) Shahristani said the first bid round was proceeding. The MoO had held a workshop in Istanbul to receive comments from the participating international oil companies (IOCs). The MoO had implemented the changes within its authority, but some recommended measures were outside its scope. While the IOCs were willing to pay Iraqi corporate and other taxes, they had requested that Iraq implement legislation to exempt them from double taxation. Parliament would need to pass the legislation, Shahristani said. (Note: Treasury has the U.S. interagency lead on negotiation of bilateral double-taxation treaties. The IOCs may want to approach Treasury on initiating discussions toward such a bilateral treaty. End note.) On another front, the Chinese were continuing their development of the Ahdab oil field in Wasit Province and had brought in some equipment.

¶ 19. (C) During the meeting, Shahristani also said that, as he had told reporters on the margins of the OPEC meeting, production sharing agreements could be an acceptable mechanism to attract IOC participation for exploration of new areas. Iraq had defined 65 exploration blocks, which he was thinking of offering in 2009.

Cross-border Fields

¶ 10. (C) Regarding negotiations on cross-border fields, Shahristani noted that Iraq has a joint committee with its neighbors, but there had been no agreement on the text of any unitization agreement, and therefore no possibility of Qunitization agreement, and therefore no possibility of signing such a document. Iraq had held a technical meeting with Kuwait in February, while the Iranians were maintaining the status quo, including a presence near Iraq's oil terminals in the Gulf. Shahristani and Shamma both were disturbed at a recent Iranian letter which claimed that the Khor al-Amaya Oil Terminal was located in Iranian territorial waters. Shamma noted that the terminal had been built in 1961 and the Iranians had made no such claim previously through successive changes of government on both sides of the border.

¶ 11. (C) Shahristani noted that some of the fields offered in the second bid round extended beyond Iraq's border. One

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field was Badra, in Wasit Province. Shamma commented that the underground geology suggested that Siba gas field in Basrah Province extended into Iran. Shahristani said that he had heard a report that the Chinese had discovered a huge new field in Iran, one-third of which was in Iraqi territory. He resignedly observed that, if there were no agreement, then Iraq's neighbors would drill and produce on their side and Iraq would do the same.

Hydrocarbons and KRG Relations

¶ 12. (C) Shahristani said he did not really expect any movement on hydrocarbons legislation before the national elections. There had also been no recent talks with the Kurdistan Regional Government (KRG). He complained that, not only was the KRG signing production sharing agreements with foreign companies, it had prevented work from continuing on producing oil fields. The KRG had confiscated MoO equipment (note: on the Khormala Dome field) instead of returning it. Responding to EMIN's observation that both the KRG and central government needed additional oil revenue, Shahristani claimed that the KRG had been the party that had refused to connect a pipeline from its Tawke field. The KRG was producing the oil, selling some of it as heavy fuel oil and smuggling more to Iran.

Comment

¶113. (C) Just as in his public statements, Shahristani selected facts and provided optimistic projections to counter the concerns raised by his GOI rivals that he has managed the petroleum sector poorly. He also glossed over the recommendations from the Oil Policy Symposium that are likely to reduce his authority and control over Iraq's petroleum sector. While his claim to be able to expand petroleum production by another 100,000 bbl/d this year rests on shaky ground, Shahristani and his Ministry do appear to be more energized lately. Shahristani is in the process of replacing key personnel, including appointing a new Deputy Minister for upstream, and revamping the Ministry's organization of the upstream sector. The MoO has also garnered publicity regarding its tenders to potential contractors for drilling, well workovers, and construction of oil fields facilities. Hopefully, Shahristani's new focus will augur well for the progress of the first bid rounds and lead to an early and equitable deal for international oil companies, but this remains to be seen.

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